

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)

Low Volume Long-Distance Users)

CC Docket No. 99-249

REPLY COMMENTS OF SPRINT CORPORATION

Sprint Corporation ("Sprint") respectfully submits its reply comments in response to the Commission's Notice of Inquiry, FCC 99-168, CC Docket No. 99-249 (July 20, 1999) ("NOI").

I. INTRODUCTION

The comments submitted in this proceeding demonstrate that the long distance market is fiercely competitive and that competition, not regulation, ensures that all consumers benefit from lower priced, higher quality and more innovative long distance services.¹ A handful of commenters² ignore the overwhelming evidence of long distance competition and seek "protectionist" regulation to benefit "low-volume users," even though there is no showing that they need such protection. These commenters propose remedies that conflict with the "pro-competitive, de-regulatory national policy framework" set out in the 1996 Telecommunications Act. In particular, they would have the Commission prohibit the hundreds of non-dominant long distance carriers from recovering their costs in the same manner in which they are incurred (*i.e.*, aligning their prices with their costs). They would also prolong the obligation of high-volume long distance users to subsidize low-volume users, regardless of need. As demonstrated below, these "remedies" run contrary to the public interest and are entirely inappropriate in a

¹ See *e.g.*, comments of the Ad Hoc Telecommunications Users Committee, AT&T, BellSouth, Cable & Wireless, CompTel, Excel, GTE, MCI WorldCom, Michigan Public Service Commission, Qwest, Sprint, and USTA.

² See *e.g.*, Consumer Federation of America, *et al.*, Joint Consumer Advocates, and The Utility Reform Network (TURN).

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competitive market.

II. THE LONG DISTANCE INDUSTRY IS SUBJECT TO IRREVERSIBLE COMPETITION

The record in this proceeding demonstrates that the interexchange market is fiercely competitive. Consumers have a greater variety of carriers and service options to choose from to make long distance calls than they do for any other telecommunications service. There are now more than 600 interexchange carriers operating in the United States. Of these, 20 had annual revenues in excess of \$100 million and eight had annual revenues in excess of \$1 billion. In addition, "dial around" carriers, which operate as both a substitute for, and complement to, presubscribed long distance service, have estimated annual revenues of \$2 billion. AT&T at 10-11. The record also demonstrates that low-volume and high-volume consumers are taking advantage of this fiercely competitive market and shopping around and switching carriers at a relatively high rate. MCI WorldCom at 2 (over 26 million customers estimated to have changed carriers in the past year); AT&T at 23-24 (even low-volume customers have a relatively high churn rate). In this context, the Commission should expect market conditions to ensure that high quality, innovative, and efficiently priced long distance services are available to all consumers.

III. "LOW-VOLUME USERS" ARE NOT A PROTECTED CLASS

The record also confirms Sprint's contention in its comments that there is little or no correlation between income and long distance usage and that, as pointed out by Commissioner Powell, many low-income households make a substantial volume of long distance calls. The studies submitted by AT&T and MCI WorldCom confirm Sprint's own studies' finding that there is little or no correlation between long distance usage and income. AT&T at 22-23 and Rosston Declaration at 13-14 ("Low-volume users include a large number of high-income households, and [there are] a substantial number of low-income households that are not low-volume users);

MCI WorldCom at 9 and Ford Report at 14-15 (finding that there is a very weak correlation between income and long distance usage and that low usage is common at all income levels); Sprint Comments, Access Charge Reform, CC Docket 96-62, Exhibit 2 at page 6 (Jan. 29, 1997); see also AARP at 2-4 (finding no correlation between income and usage); Michigan Public Service Commission at 3 (stating that no economic studies have established a correlation between long distance usage and income); and Bell Atlantic at 3 (citing study by Robert A. Crandall finding that in every income group, "there is enormous variance in the number of long distance calls per month").

The comments further demonstrate that low-income households already have access to affordable long distance services. For example, for those consumers who do not have sufficient long distance requirements to warrant payment of a minimum usage charge, Sprint offers "Sprint Basic" (tariffed as Sprint Standard Weekend). This plan carries no monthly fee and no minimum usage charges. AT&T notes that for consumers qualified to participate in its Lifeline program, it waives its minimum usage, USF and PICC charges. AT&T at 21. Similarly, under MCI's "Family Assist" plan, Lifeline customers pay no minimum or flat fees. MCI WorldCom at 7. In addition, low-volume users at all income levels can take advantage of the heavily-advertised "dial-around" services that offer very low per-minute rates and do not include additional fees or charges.

The proposed CALLS Plan (see Memorandum in Support of the Coalition for Affordable Local and Long Distance Service Plan, CC Docket Nos. 94-1, 96-45, 99-249 and 96-262 (Sept. 20, 1999) ("CALLS Plan") provides future protection for low-income, low-volume long distance users against flat monthly charges. It expands Lifeline support to ensure that these consumers would pay no monthly SLCs and pay no PICC-related charges (which many pay today). CALLS

Plan at 15. By providing universal service support to those who need it most, and at the same time slashing access charges in half, the Plan promises to strengthen subscribership among low-income consumers.

By contrast, remedies proposed by the Commission and consumer groups, such as requiring long distance carriers to offer low-volume calling plans with no monthly fees (see e.g., CFA at 26), would harm the substantial number of low-income households that are high-volume long distance users. That is because they would be forced to subsidize the fixed costs incurred by low-volume users (by paying higher per-minute rates), many of whom come from high-income households. Such a result would not only create economic inefficiencies but would also be patently unfair to low-income, high-volume users. There is simply no reason to require such users to subsidize the calling patterns of those who require no financial assistance.

The overwhelming evidence in this record demonstrates that long-distance carriers incur both fixed costs and variable costs. In an efficient, competitive market, long distance carriers will recover their costs in the same manner in which they are incurred. That is, they will align their prices with their costs of providing service so that when their customers incur fixed (i.e., non-traffic sensitive) costs, they will pay fixed charges, and when they incur variable (i.e., traffic-sensitive) charges, they will pay variable charges.

Examples of fixed costs include billing and collection, customer service, marketing and network costs. These costs are incurred even if a customer does not make a single call. Unless carriers are allowed to recover these fixed costs through flat fees, they will be forced to over-recover these costs from high-volume users. This over-recovery is required in order to subsidize the under-recovery of fixed-costs from low-volume users. Subsidies of this sort have no place in

a competitive market and any requirement that carriers internalize such a subsidization scheme runs contrary to the goals of the 1996 Act.

IV. FLAT FEES ARE COMMON IN TELECOMMUNICATIONS AND OTHER SERVICES

Finally, the record demonstrates that there is nothing inherently anticompetitive about the use of flat fees to recover the fixed costs associated with long distance services. CFA's claim that such charges are "indicative of anticompetitive market dynamics" is simply incorrect as a matter of basic economic theory and is contrary to all empirical evidence as well. Many competitive communications services, such as wireless and Internet access, have grown wildly popular with the introduction of flat, monthly charges. U.S. consumers also pay flat charges for local telephone service and multi-channel video programming delivery ("MVPD") services, such as cable and satellite television. Outside of communications, consumers pay flat charges for electricity, gas, water, banking, health clubs and credit cards. The prevalence of flat charges for services, many of which are not only fiercely competitive but also exhibit very strong consumer demand, shows that this is an efficient manner by which a firm may recover its costs. Moreover, the absence of regulatory intervention to prevent firms from charging flat fees indicates that there is nothing inherently anticompetitive about them. There is certainly nothing anticompetitive about the manner in which Sprint seeks to recover some of its fixed costs.³ But even if there were, the competitive long distance marketplace would ensure that Sprint paid a penalty for such a practice. That is, consumers would have the incentive and the ability to switch to other providers that were able to offer lower-priced services by more efficiently recovering their costs.

³ The suggestion by CFA and TURN that the Commission should eliminate or reduce the SLC is unfounded and outside the scope of this proceeding. See CFA at 27, TURN at 10. As Sprint has previously demonstrated, the federal common line charges that Sprint's ILECs are currently permitted to charge (SLC, PICC and CCLCs) do not allow for the recovery of the forward looking economic costs for non-traffic sensitive elements. See Sprint Ex Parte, CC Docket Nos. 96-262, 94-1 and RM 9210 (Dec. 17, 1998) (demonstrating that price cap LECs' forward-looking economic cost for non-traffic sensitive elements is on average \$6.78).

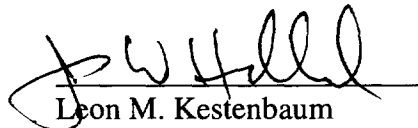
Under these circumstances, Sprint respectfully submits that there is no need for the Commission to impose rate regulation on the hundreds of non-dominant long distance carriers.

V. CONCLUSION

For the reasons stated above, Sprint respectfully requests the Commission to terminate this proceeding without imposing any new, unwarranted regulations on the competitive long distance industry.

Respectfully submitted,

SPRINT CORPORATION

A handwritten signature in black ink, appearing to read "L. M. Kestenbaum", written over a horizontal line.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Reply Comments of Sprint Corporation was sent by hand or by United States first-class mail, postage prepaid, on this the 20th day of October, 1999 to the parties on the attached list.


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